

The UK doesn't need an IMF bailout

Published: September 30, 2026, 6:04 am

Could Britain really need another IMF bailout?

The Financial Times has revived memories of 1976, when Britain turned to the International Monetary Fund for financial support. But the circumstances today are fundamentally different, and understanding why tells us something very important about government debt, money and the supposed threat of national bankruptcy.

In this video, I explain what the IMF actually does, why countries sometimes need its help, and why foreign currency debt is crucial to understanding an IMF crisis.

I look back at what happened to Britain in 1976, when sterling was under pressure, foreign currency reserves mattered, and the international monetary system was still adjusting to the collapse of Bretton Woods.

Then I explain why today's position is different. UK government debt is overwhelmingly denominated in sterling. The UK government creates sterling. A government that owes debt in its own currency faces fundamentally different constraints from a country struggling to obtain dollars to meet foreign currency debts.

That does not mean Britain has no economic problems. High interest rates, inflation, weak investment and struggling public services all matter. But they are not the same thing as government insolvency.

So why revive the spectre of an IMF bailout? And does talk of a financial crisis risk becoming another argument for austerity?

That is what this video is about.

https://www.youtube.com/watch?v=ZDbZgBiMp_8?si=Ti0xBrYVgLO5u2li

This is the audio version:

https://www.podbean.com/player-v2/?i=ffcm3-1b710d6-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

There's been discussion in the Financial Times very recently that the UK might be in such a serious financial position that we might need an International Monetary Fund or IMF bailout. That is an extraordinary claim and there is absolutely nothing about the UK's present financial position that justifies this suggestion.

So what is the Financial Times talking about? Why is it so wrong? Why is this idea that Britain's bust being put forward by those who should know better? And what do we really need to know and understand? That is what this video is about.

But first of all, let me explain what the International Monetary Fund is because not everybody knows. The IMF, as it is called, is one of the international financial organisations created after the Second World War. It's based in Washington. I've been there. I've spoken there. I know a little bit about it. And it was part of the Bretton Woods International Financial Order created principally by the UK and the USA as the Second World War drew to a close, and it was designed to create the form of international financial stability that was not found in the 1930s and which those countries realised would be required if fascism was to be prevented from ever rising again.

Almost every country in the world now belongs to the IMF, and they all contribute funds to its resources. For the present purposes, think of the IMF as a bank operating at government level. Member countries provide funds that the IMF can then lend to countries in financial difficulty.

The IMF is not a bank in the sense that it creates money. This is a case where it does lend the members' money, and those members are countries.

Those loans are required when a country lacks the foreign currency required to meet a payment that it owes when that payment falls due. The crucial issue then is foreign currency. The issue we're talking about here is not a debt problem. We're talking about a debt problem that is denominated in a currency other than that of the country that owes the money. And the IMF is the agency that can step in to provide a loan to a

country that can't pay its debt in a foreign currency by providing the currency in question. And that currency in question is almost invariably the US dollar.

Remember, this problem cannot relate to a debt that the country owes in its own currency because a government can always create its own currency. That's true of any country, anywhere, unless they refuse, of course, to have their own currency; that then becomes a different problem. But if they have their own currency, they can always pay their own debts, and that, remember, is exactly the situation that the UK is in. But if they owe their debts in another country's currency, they can run out of funds to pay.

This is the problem that many countries in the developing world face. They have had to take loans in dollars above all else, and they sometimes run out of the ability to pay.

This was also the problem that Weimar Germany had when it could not pay its debts to the UK, France and the USA after the First World War. It's the problem that Zimbabwe had when it could not pay its debts in foreign currency in the 1980s. It's the problem that Venezuela has had since.

All of these countries have run into problems because they do not have foreign currency. And when they do run into problems, and when the IMF agrees a loan, the IMF then provides them with the foreign currency they need to make the payment that is due.

And IMF loans are almost invariably made in dollars, and that's a problem in itself. This means that the country that has a problem with paying its foreign currency loans then picks up another foreign currency loan to pay the one it already had. This means that they are in a worse situation in many cases than they were before. Sure, they haven't gone bust, but they now have even more foreign currency debt than they did when they started. And lending more foreign currency to a country that is already struggling with these debts can therefore compound their problems.

And IMF lending has long been associated with the imposition of terms on the countries that have borrowed money from them, which have become known as the Washington Consensus. Countries have been required to cut government spending to get this loan. They've been required to reduce state support for their people and industries. And they have been required to open their markets to international competition whilst reducing capital controls on the flows of money into and out of the country, and removing tariffs and other protections that have helped their domestic industry develop.

The neoliberal market has been required to rule, whatever the social consequences, and this has been devastating for many countries in the course of their development. These policies have frequently imposed enormous costs on ordinary people in borrowing countries.

Developing countries have been encouraged to export raw materials rather than

develop their own economies. They aren't allowed to process materials; that has to take place in the developed world. They are therefore denied the opportunity for added value within their economies, and multinational corporations have gained access to markets and resources that would otherwise not have been available to them.

The IMF is no solution to most of the world's problems as a consequence. And global inequality is maintained as a result, while the supposed rescue of the country is described as economic reform, when it is actually economic repression.

Now, let's get back to the main point. In 1976, the UK did ask for a loan from the IMF, but for those who are old enough to remember, and I am, 1976 was a very different place from that of Britain today. I went to university in that year. I'm more than able to remember that very long, hot summer, the equivalent of which we've just had.

The Second World War was a recent memory for many people. It had only ended three decades earlier, and we still had dollar obligations to the USA as a result. The Lend-Lease programme had not yet been paid for.

We had a problem, and we also had an oil price shock that had massively increased the cost of internationally traded energy, which was priced in dollars. That happened from 1973 onwards.

And we were also facing total confusion in international financial markets that resulted from the end of the gold standard in the USA in 1971. Nobody knew or understood how money worked at that time, as a consequence.

The Bretton Woods agreements had collapsed. The fixed exchange rates, which they had embraced, were going. We were in a situation where dollar convertibility to gold had ended, and governments were suddenly operating with fiat currencies in a very different monetary system from that which they had been used to, and there was considerable confusion everywhere about what this meant.

And during 1976, it looked as though it was possible that in the midst of all this confusion and the inflation that was going on, because of those oil price increases I've already referred to - there is nothing new on this planet, it would seem - Chancellor Denis Healey, yes, he had the same name as the existing Chancellor of the Exchequer - except I suspect he was considerably more able - he realised that we were running short of foreign currency reserves, and particularly dollars. And we did have to make settlement of our loans to the USA in dollars. As a consequence, the IMF was approached, and a loan was arranged for several billion dollars.

The truth was the IMF loan was never really needed. It wasn't used. We probably did have enough reserves to make settlement. The loan that was secured was a precaution. It was wise, but Labour paid the price of the apparent economic incompetence that it was claimed had given rise to the need for it for the next two decades, and that's why

we got Thatcher.

But today everything is fundamentally different. The UK government does not now have any significant liabilities denominated in foreign currencies. I think it is less than half of 1% or £1 in every £200 that might be owed in a foreign currency now, and we have to thank George Osborne for that. Its debts are overwhelmingly denominated in sterling, in other words, and we also have significant foreign currency reserves. One of the things that was done after 2008 was, in general, to increase the quantity of reserves in international financial systems. There is then no reason to think that this country cannot meet its foreign currency obligations at this moment.

And anyway, the UK government creates the currency in which its debts are overwhelmingly denominated, that is sterling. And the UK government can always create the sterling that is needed to settle a sterling liability when it falls due. That, as a matter of fact, is indisputably true and nobody anywhere argues with it and it cannot, as a result, in any way need an IMF bailout because an IMF bailout will provide it with foreign currency, which it doesn't need, and which would be of no use to it.

The claim that we do therefore have an impending UK government solvency crisis is fundamentally mistaken and is being promoted in the Financial Times as a deliberate, in my opinion, falsehood because they must know this is not true. These are competent people. They are putting forward ideas that make no sense, and I have to question why they are doing that.

And let's be clear, just because we have a problem with high interest rates in this country does not mean we have a problem with settling our debts. The two are unrelated. The debt is payable in sterling, so is the interest. We will not come to the point where we cannot pay either. The suggestion that the interest rate is creating the solvency crisis is again just plain straightforward nonsense.

The existence of government debt does not establish that the government is approaching bankruptcy. In fact, UK government debt is lower than that of many equivalent countries around the world. Sterling government debt is a financial asset that many people want to own. When it's put up for auction at present, there's normally strong demand to buy the bonds in question. That's because people know that the UK government is unlike any other organisation that manages sterling deposits because it can always pay. Banks can't; other deposit takers can't. The government can. And calling this a credit crisis as a result confuses the cost of government financing with the ability of the government to pay.

So the Financial Times and others are promoting a false idea that the UK faces a potential credit crisis. They should know better. That claim encourages fear that government spending has become unaffordable, and this, I believe, is their true agenda. The supposed solution that these people want to promote is that we must have spending cuts, that we must have austerity and that we must punish people who

depend upon public services by denying those things that we need.

None of those things is necessary, and there is no need to punish people for things they have never created and for which they are not responsible. We do not have a solvency crisis. We do not need austerity.

But the Financial Times, which is dedicated to the ideas behind the Washington Consensus, is using the opportunity to suggest that there is a financial crisis to try and impose even harsher neoliberal policies on this country than those that we already have.

The problem is not UK solvency. The problem is the neoliberal economics that is being used to claim that insolvency threatens. We need to be rid of that economics because that is the problem. And in that case, the suggestion that we might need an IMF bailout is just wrong.

That's what I think. What do you think? There's a poll down below. Let us have your comments. We do appreciate them. We do analyse them now. We do look at what we can learn from them, so please let us have them. And please like this video. Please do share this video. Please do subscribe and hit the bell button, and that way you'll be told when we produce new videos. And if you'd like to support our work and if you would like to buy us a coffee as a result, there is a button to do that just down below.

Poll

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